CH14 Questions

**2.**





**3.**





**4.**

a)

Bond B will have a higher YTM than Bond A since it is being sold at par whereas Bond B is being sold at a discount. Because Bond B is being sold at a discount and has a higher YTM, it will have a shorter duration than Bond A.

b)

Bond B has the higher YTM and larger coupon payments than Bond A. Because of this, Bond B will have a shorter duration than Bond A. Bond B is also callable whereas Bond A isn’t, which will mean that Bond A’s maturity will be as long as Bond B’s maturity, which generally means a longer duration.

**9.**



The company needs to purchase a bond that matures in 1.86 years with a face value of 11.57 Million and a par value of 11.57\*1.1^1.86=13.81 Million

**10.**

Bonds with the higher duration will experience the greatest gain from a falling interest rate.

a) the Aaa bond will have a lower YTM as it is a more safer bond to invest into. Because of this, the duration will be longer for the bond and, therefore, the Aaa bond will benefit more than the Baa bond.

b) the bond with the 3% coupon will have a longer duration and will therefore benefit the most from the interest rate drop.

c) the bond with the lower coupon rate.

**15.**

a)

The 4.73 is as of year 5, and so we must add the 4 years prior to find the true duration; 8.73

**17.**